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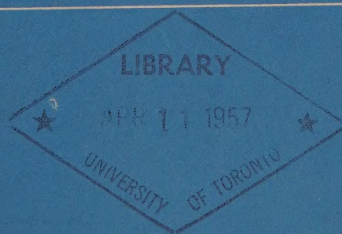
Canada Trade and Commerce, Dept.
of Industrial Development Branch

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INANCING

NEW INDUSTRIES

IN CANADA



Financing *New Industries* in Canada



Prepared by
Industrial Development Branch
Department of Trade and Commerce, Ottawa

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Foreword

THE businessman who wants to launch a new enterprise — no matter how modest in size — comes face to face with the question of financing. Where can he obtain the necessary funds to give life to and sustain the proposed venture?

On the one hand, it may be that the initial financing can be handled entirely from savings the businessman himself has accumulated. However, on the other hand, it may well be that a further amount of risk capital is required to establish the enterprise on a sound financial footing. Or, it could be that the businessman may find it necessary to supplement the original investment by borrowing on a long, medium, or short-term basis.

How does one tap the savings of individuals willing to invest in a new enterprise?

What are the facilities for the procurement of such capital in Canada?

Wherein do the judgment and practices of lenders or the laws and regulations imposed on the lending community affect the availability of credit funds?

What are the ordinary sources of financial assistance in Canada for various types of credit needs?

Are there any extraordinary or special sources of assistance in Canada to which would-be borrowers may have recourse?

These are but a few of the questions to which the businessman may have to find an answer. This booklet, in providing information and suggestions may be of some assistance. Further information can be obtained from the Industrial Development Branch, Department of Trade and Commerce, Ottawa, or from agencies mentioned in the text.

Foreword

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Owner's Equity or Risk Capital

PROPER financing for a business usually requires two kinds of capital. One is known as equity or risk capital and the other as loan capital.

Equity capital comprises funds invested in an enterprise by the sole owner, partners, or shareholders, in the hope of deriving profits from the venture. No interest is paid on this type of capital, and there is no legal requirement to repay it to the original investor.

Loan capital represents funds advanced to a business by individuals or organizations having money to lend for such purposes. Interest must be paid on funds obtained from such sources and the amount borrowed must be repaid in accordance with the terms of the lending agreement.

Financial institutions normally expect that the proprietor or proprietors of a new business will be able personally to invest a substantial amount for each dollar of borrowed capital. The requirement varies materially depending upon the type of business, the experience of the owner or owners, and current economic prospects. It is safe to say, however, that new enterprises of unproven character usually must provide from fifty to eighty per cent of the necessary funds in the form of equity capital.

Such an essentiality differs radically from the idea of many people who believe that financial institutions or government agencies will provide all or most of the basic capital required for a business venture. This mistaken belief is traceable to a lack of understanding of private enterprise. The entrepreneur himself must assume the principal risk, and takes this risk when he commits his own funds to the business. If he does not have sufficient capital himself, he should attempt to find another person who will join him in providing risk or equity capital for the venture. Anyone planning a business should not assume that a financial institution, which specializes in lending funds, will loan money to any enterprise not already properly financed with equity capital.

The proprietor of a small business is generally obliged to depend largely on his own savings and those of his friends and relatives for the capital required to establish the business. However, in some instances, he may obtain additional risk capital from one or more individuals interested in the proposed operation. Local bank managers or officers of other financial institutions may be able to suggest private individuals who have evinced an interest in finding a good investment. Moreover, a number of municipal Industrial Development Commissions or Boards are in a position to arrange a mutually beneficial association between new enterprises and local individuals with funds to invest.

If a business is incorporated, it may be possible to obtain additional capital by selling shares in the enterprise to the general public, to a limited number of subscribers, or by floating an issue of debt securities. Such proposals are usually brought to the attention of an investment dealer and his services secured. Generally speaking, smaller companies cannot obtain funds by issuing securities, but they could also discuss their problems with

an investment dealer. In such cases, the investment dealer may be able to arrange a private issue of securities, or a small public issue, for he is usually in touch with investors who have substantial sums of money for private placement in promising undertakings.

In essence, the Canadian investment dealer is a financial middleman who brings together those who require investment funds and those who have savings to invest. He makes his living largely by purchasing securities from those requiring investment funds and then reselling them at a profit to investors. In the course of his work, he carries out a number of useful functions, providing investment advice to a great many investors and acting as a financial advisor to governments and corporations. He also plays an important part in the operation of mortgage and bond markets. His success rests on his ability (a) to gauge what the Canadian market will buy, and (b) to underwrite the securities of companies which have demonstrated earning ability or whose future prospects seem so assured that their securities are attractive despite the lack of an established earning record.

Since the success of a dealer rests on the investment success of his clients, he must satisfy himself that the securities he is placing are sound. After a thorough study and analysis of the proposal, to ensure that it is feasible and economically sound, he will recommend the type of financing required, and advise in the creation of new securities.

This aspect of the business involves a substantial amount of negotiation and investigation on the part of the investment dealer. He must satisfy himself on such matters as the future outlook and earning capacity of the enterprise; the efficiency and ability of the management; the character and value of the assets which will back the new securities; the condition of the security market; and many other related factors. If the results of the investigation are favourable, he will enter into an underwriting agreement with the principals of the enterprise and agree to underwrite its capital requirements by purchasing and selling its securities. The investigation costs, such as accounting, legal, engineering, etc., of preparing and selling an issue of corporate securities to the public, rule out some securities which might be suitable on the basis of quality. It is difficult to name a precise dollar minimum, since it would vary with circumstances. Anything under \$100,000 would be somewhat impracticable, for not only would the investigation cost likely eliminate any possible underwriting profit, but the volume of securities sold would not be sufficient to guarantee the development of a secondary market for the securities.

When an investment dealer agrees to obtain capital funds for a corporation by selling an issue of its securities, he is contractually obliged to provide those funds even though his selling efforts may fail. His obligation is set forth in an underwriting agreement, which is the issuer's assurance that the dealer will take up the securities at a specified time and price. In effect, the investment dealer uses his own resources to buy the entire issue which he then attempts to sell at a price somewhat above his cost in order to provide him with a profit to compensate for his services. His profit margin will

usually vary between one and five per cent of the issue, depending upon the amount of risk he assumes in underwriting the issue. If, as a result of changing security markets, the investment dealer must hold the securities in inventory for a considerable period of time, or sell them at a reduced price, then his profit may be eliminated, or he may incur a loss. The issuing corporation incurs no liability or responsibility for the sale of its own securities.

There are over 200 investment dealers in Canada, a number of which have had a great deal of experience and are specialized in the underwriting of securities for industrial corporations. The Investment Dealers' Association of Canada is a regulatory body to which the majority of Canadian investment dealers belong.

Loan Capital

MANY new enterprises do not succeed in obtaining all their necessary "initial funds" as equity capital, primarily because most persons starting an independent business do not have sufficient savings with which to launch a new enterprise. It is often impossible to transfer sufficient capital from certain countries in order to set up a business in Canada. Since many people are unwilling to share control and future profits with partners or new shareholders, it is frequently necessary for them to borrow additional funds in order to supply all the essentials for operation.

It is useful to think, of the Canadian business credit market as being composed of two divisions, one concerned with medium and long-term credit of more than one year, and the other with short-term credit for one year or less. The two divisions differ in credit appraisal methods and standards. In lending on a medium or long-term basis, credit institutions tend to place greater emphasis on the earning power of the borrowing concern over a period of years, and its ability to service the debt. In lending on a short-term basis, greater reliance is placed on the balance sheet of the business in order to determine whether liquidation of current trading assets will produce sufficient funds to pay off the debt.

Medium and Long-Term Loan Capital

The fixed assets of a business, those having a life of greater than one year, should be financed under ordinary circumstances by the equity capital contributed to the enterprise by the owners, or by medium or long-term loans having a duration related to the life of the assets financed by such loans.

Medium and long-term business credit has taken two broad forms in Canada: open market loans, and direct loans.

Open market loans are an exceptionally low-cost, effective and absolutely essential method of raising loan capital for larger enterprises. Such public offerings of debt securities on the organized capital markets are usually handled by an investment dealer acting as a financial middleman between borrowing concerns and prospective lenders. In this type of financing the investment dealer must satisfy himself concerning the soundness of the proposition.

Because relatively few firms, and then only the larger firms, are in a position to float an issue of debt securities, most business concerns are forced to negotiate their loans directly with a financial institution, an affiliated business concern, or one or more individuals. The security offered for repayment of these medium and long-term loans is normally a form of mortgage security; a charge on fixed assets of the business. If the borrower fails to carry out his obligations, the mortgage may be foreclosed by action of the Court, and the assets on which the mortgage was taken become the physical and legal property of the lender. Mortgages are subject to provincial law.

Life insurance, trust and mortgage loan companies are the principal sources of medium and long-term loans for Canadian industry. Because of the nature of the funds which they have for investment, these institutions play a much greater part in financing the expansion of established industries than in the financing of new industries.

When they do purchase preferred or common shares, they are restricted to stock on which dividends have been paid regularly for five or seven years, respectively. However, life insurance companies now have the power to make investments not specifically authorized in the Canadian and British Insurance Companies Act under which they operate to a total not exceeding three per cent of their assets. This allowance may result in their providing more equity capital for new enterprises.

Life insurance companies do on occasion make loans to new industries, especially when the industries are backed by substantial equity capital and technical knowledge. Not only do they make loans by way of mortgages on the security of individual plants and commercial properties, but they also make funds available through the purchase of bonds, notes and debentures.

In lending funds on mortgage security, life insurance, trust and loan companies are limited by law to loans not exceeding sixty per cent of the value of the real estate pledged. Experience has shown there is considerable risk in making mortgage loans on a plant or building which cannot easily be adapted to uses other than that for which it was designed. For this reason, as much weight is given to the profit experience of the borrower over a period of years and the probable ability of the company to meet its debt service in the future, as to the value of the security pledged.

An earnings test is also applied where the funds are advanced by means of bond and debenture purchases. Life insurance, trust and loan companies may purchase corporate bonds or debentures which are fully secured by a mortgage on real estate and plant or equipment. But, some bonds and debentures are eligible for purchase by them only if the company's dividend record or earnings record meets certain requirements laid down by law.

Short-Term Loan Capital

The current or "working" assets of a business should usually be considered in terms of normal or usual requirements, and peak or seasonal needs. The normal working asset requirements of a business should be financed by the provision of capital from relatively permanent sources, such as the owners' investment or long-term borrowing. As a minimum, the amount available from these sources should be sufficient to maintain operations until satisfactory credit relationships or sales receipts can be established. However, every business finds that working requirements vary materially during the year, reflecting the seasonal pattern of the particular business, or the production cycle, or changing price levels. Since such financial needs are temporary, they should be financed on a short-term basis related to the duration of the need.

The short-term credit needs of most firms are ordinarily met through recourse to one or more of the following channels: (1) a commercial bank, usually that in which the firm deposits its funds; (2) the mercantile or "trade" creditor whose extensions of "open account" credit normally finance part or even all of the inventory; and (3) non-banking agencies, such as finance, discount or acceptance companies.

Commercial Banks—The amount of credit available from a bank is related to the size of the "cushion of risk capital" placed in the business by the borrower. If the bank is to risk its funds on a loan basis, the borrower must risk his in adequate proportion, as an assurance that he can and will support the credit. Many types of business require relatively small proprietary investments in relation to their sales. Their "size" in fixed asset requirements may be considerably smaller than their "size" in volume of operation. It is owing in large part to this abnormal ratio that some banks may not grant them credit in amounts sufficient for their entire operating needs, or, indeed, grant them credit at all. In other words, to borrow adequate working capital from a bank, there ordinarily must be a proportionate amount of risk capital in the business. Much of the problem of securing credit from a bank centres upon this fact.

At the present time, the banking system in Canada consists of the Bank of Canada, which is a government-owned central bank, and nine chartered commercial banks, privately owned by nearly 77,000 shareholders, most of them Canadians. These nine banks, sharing the commercial banking field on a competitive basis with over 4,300 branches and sub-agencies in Canada and 124 in foreign countries, operate under the Bank Act, an Act of the Parliament of Canada, which is revised every ten years in order that banking facilities may be in accord with economic and other requirements of the country.

Operating under the general supervision of its head office, a branch bank does not stand alone. It cannot have its solvency shaken by local conditions, in view of the fact that the strength of the parent bank stands behind it, fully responsible for its commitments and undertakings. Excess funds from branches, where deposits exceed loans, are credited to head office, which, in turn, makes funds available to branches with heavy loan requirements. Applying this principle to the system as a whole, it may be said that the chartered banks, operating on a national scale, mobilize the savings of millions of people all over Canada and, on the basis of this pool of deposits, make credit available in any part of the country where the need or opportunity arises. In this way there need be no shortage of credit anywhere through lack of local funds.

It is a function of the chartered banks to make loans to industrial, commercial and other borrowers who can use the money profitably in legitimate enterprise with reasonable prospects of repayment under conditions likely to face the undertaking. Though it is not their function to provide long-term loans, there may be exceptions in particular instances, and the banks are ready to consider unusual circumstances. Broadly speaking, however, bank loans are granted for working capital purposes, and provision is made for

repayment from the ordinary seasonal operations of the borrower. Again, subject to exceptions, it is usual for borrowers to provide security unless their financial position is sufficiently strong and their business well enough established to warrant unsecured credit.

In accordance with the terms of the Bank Act, banks may lend to any manufacturer on the security of items manufactured by him or procured for manufacture, and make advances to wholesale purchasers, shippers or dealers on the security of products of agriculture, the forest, quarry or mine, or of the sea, lake or river, or to farmers or persons engaged in stock raising on the security of livestock, or to farmers on the security of threshed grain. The Bank Act also provides that warehouse receipts and bills of lading may be held by banks as collateral and that advances may be made against standing timber. Other forms of security taken by the banks are assignments of accounts receivable, hypothecation of trade paper, life insurance, stocks or bonds and, under certain conditions, instalment finance paper and lien notes. The Banks are prohibited from advancing moneys directly on the security of bank stocks or on such security as mortgage of land, building or other immovable property, except a new residence under the National Housing Act or farms under the Farming Improvement Loans Act.

The chartered banks maintain departments which give information to persons considering the establishment of industrial or commercial undertakings in Canada, and will gladly answer inquiries related to the financing of enterprises and other matters.

Trade Credit—Practically all small firms make regular use of the mercantile credit extended by suppliers. Unless cash is paid “with order” or “on delivery” the value of the goods received will be “borrowed” by the business until the invoice is paid. Such money is borrowed only upon the security of the normal terms of payment in the particular trade, and upon the company’s reputation for stability. Usually, the creditor neither requires nor expects any security for the sum owing to him, although most firms have a credit department, or make use of special agencies responsible for making inquiries as to the credit status of a new customer before his order is accepted. Any business which follows reasonably sound practices in meeting its credit obligations can obtain substantial amounts of financing through mercantile credit.

Aside from the accommodation extended by material suppliers, credit is quite often available from equipment manufacturers. Manufacturers of office equipment, delivery trucks, industrial machinery, etc., very often offer financing plans under which a purchaser can buy on an instalment basis and pay out of current income.

Finance, Discount, Acceptance and Factor Companies—Among other institutions that may assist the would-be borrower in need of short-term credit are the various loan companies and finance, discount, acceptance and factor companies. Their methods of operation vary, as will be noted from the following.

In respect of loans up to and including \$1,500, small loans companies and money-lenders are subject to the regulatory restrictions of the Small Loans Act, a statute of the Parliament of Canada.

The Act requires that anyone wishing to make loans in amounts of \$1,500 or less and to charge rates in excess of one per cent per month must first obtain a licence. With a licence under the Act, the lender is permitted to charge a rate (inclusive of all charges) not exceeding two per cent per month on the portion of the outstanding balance not exceeding \$300, plus one per cent per month on the portion of the outstanding balance exceeding \$300 but not exceeding \$1,000, plus one-half of one per cent per month on the portion of the outstanding balance exceeding \$1,000 but not exceeding \$1,500, provided that the term of the loan does not exceed twenty months if it is for \$500 or less, or thirty months if it is for more than \$500 but not more than \$1,500. If the term of the loan is longer, the maximum charge permitted is one per cent per month. Loans in excess of \$1,500 are not subject to the Act and may be made at whatever rate and for whatever term may be agreed upon between the lender and the borrower.

The business of these lending firms is primarily that of lending to consumers for personal needs, but they do, as a secondary feature, make loans for business purposes.

Factoring companies or factors are concerns which specialize in buying outright the accounts receivable of their clients. The client concerned, such as a textile manufacturer, usually relies on his factor's advice as to what trade credit he should extend. Then he sells all his accounts receivable to the factor without recourse; that is, the factor agrees to take any losses on the receivables he has purchased. There are only a few factoring companies in Canada, but they do an important amount of business.

Factoring companies serve those manufacturers and wholesalers that are engaged in the production and selling of items in which there is a continuing or "repeat" business, such as shoes, textiles, home furnishings, metal products, and so on. They usually advance funds on a short-term basis. Generally they expect to convert the purchased receivables into cash within thirty to sixty days. On the other hand, factors sometimes extend special medium-term loans to their regular clients.

Factor charges include a rate of interest and usually a fee or commission. The fee or commission is designed to remunerate the factor for advising his client on the selection of risks as well as for collecting the receivables when they are due from the client's customers.

Another source for short-term loans is made up of concerns variously known as commercial credit, discount, or finance companies. Such companies differ from factors in that they do not buy receivables and usually do not furnish collection service or management advice. A commercial credit

company will usually loan money secured by assignment of accounts or notes receivable in much the same way as banks and small loans companies do. They will also make loans secured by warehouse receipts as well as loans to finance the purchase of certain types of equipment, which may be used as security for the loans.

Like factors, commercial credit companies usually limit their loans to manufacturers' or wholesalers' receivables. Their branches can be found in any fair-sized city.

Plant Premises — Purchase, Construction or Rental

THE amount of capital which can be furnished by the principals of a new enterprise, or which can be secured by the sale of shares to the investing public, is often not adequate to develop and commercialize the business opportunity under consideration on the scale that may be desired.

Where such a situation develops, many new enterprises prefer to avoid an immediate capital outlay for the construction or purchase of plant facilities. At least, for the first two or three years many new industries prefer to occupy existing premises on a rental basis.

The Industrial Development Branch of the Federal Government, provincial and municipal industrial development agencies, the Canadian National and Canadian Pacific Railways and certain power companies, can usually advise businessmen about industrial premises available for rental or lease purchase.

A lease purchase or leaseback is a form of lease purchase arrangement, whereby the owner of property will lease a building or will build to the lessee's requirements for a specified annual rental.

By being a lessee rather than an owner, the lessee has the advantage of the use of his capital for promoting business, rather than tying it up in real estate. The price paid is generally based upon the rental that the lessee agrees to pay and in determining this rental the lessor generally considers the credit standing of the lessee, as well as the value of real estate as the security for the lease. There are several companies established to provide industrial and commercial properties under this type of arrangement.

However, in certain instances, premises available for rental or lease purchase may not be suitable for the needs of a new industry. In such cases some Canadian municipalities have undertaken to finance the construction of plant facilities designed to meet the specific requirements of a new industry, provided the industry signs a long-term rental contract or enters into a lease purchase arrangement. In the latter case, the annual rentals are applied against the cost of constructing the building, plus interest, over a period of ten to fifteen years, and the building becomes the property of the tenant when the balance is paid; or the annual payments are so calculated that the balance at the end of the contract period is nil and the premises automatically become the property of the tenant.

In certain other municipalities, local individuals have, on their own initiative, pooled their financial resources and created a fund to assist new industries. The form their assistance takes is usually that of advancing funds against a mortgage on the plant their funds will help to erect.

Of interest to established companies is the fact that life insurance companies can invest directly in real estate and that they are taking increasing advantage of this avenue of investment. However, statutory restrictions are such that only a well-established company can secure financing by arranging for a life insurance company to build or buy a plant for its use. The law provides that they can invest in real estate for the production of income only if it is leased to a company which has a good dividend record.

Financial Accommodation from Government Sources

Federal

IN spite of the operations of the various lending institutions, outlined in the foregoing, there have been times when it has been exceedingly difficult for medium and small enterprises in Canada to obtain their requirements for longer-term financing from such sources. Or it may be that an enterprise, which has good prospects for ultimate success, needs financing tailored more closely to its special circumstances than can be arranged through the usual commercial channels. The existence of financial needs of this kind led to the incorporation under an Act of Parliament in 1944 of the Industrial Development Bank. In the preamble to the Act, the Bank's purpose is defined as one of "supplementing the activities of other lenders and providing capital assistance to industry with particular consideration to the financing problems of small enterprises".

To be eligible for assistance, the borrower must be engaged or about to engage in an industrial enterprise or commercial air service in Canada. An industrial enterprise is defined in the Act as "an enterprise in which is carried on the business of — (i) manufacturing, processing, assembling, installing, overhauling, reconditioning, altering, repairing, cleaning, packaging, transporting or warehousing of goods, (ii) logging, operating a mine or quarry, drilling, construction, engineering, technical surveys or scientific research, (iii) generating or distributing electricity or operating a commercial air service, or the transportation of persons, or (iv) supplying premises, machinery or equipment for any business mentioned in sub-paragraph (i), (ii), or (iii) under a lease, contract or other arrangement whereby title to the premises, machinery or equipment is retained by the supplier. It will be noted that the Bank is not authorized to finance: — farming, fishing, wholesale or retail stores, hotels, entertainment, resources development, professional services not of an industrial character.

Before providing financial assistance, the Bank requires that a sufficient amount of money has been or will be invested in the enterprise by persons other than the Bank in order to afford the Bank reasonable protection. The Bank must also be satisfied that the proposal is sound in every way and that credit or other financial resources would not otherwise be available to the borrower on reasonable terms and conditions.

Financial accommodation provided by the Bank is usually on a medium or long-term basis. It can take the form of direct loans, participations in the form of guarantees to other lending institutions, such as the commercial banks, or in the case of corporate borrowers the underwriting or purchase of issues of stocks, bonds or debentures. The Bank is empowered to take security of any kind and in any form, for repayment of any loans made or guaranteed by it. This can include security of raw materials, goods, wares and merchandise in process, or finished goods. However, mortgages on land and

buildings usually constitute the basic security, although chattel mortgages on machinery and equipment are frequently included where this is legally possible. The rate of interest which the Bank charges on its loans at the present time is six per cent.

An important feature of the Bank's method of operation is the attention given to the arrangement of financing suitable to the needs and interests of the individual borrower. Before a credit is approved, the proposal receives careful scrutiny from the Bank's staff, which includes such specialists as lawyers, industrial engineers, chartered accountants and insurance personnel. In this way, the Bank satisfies itself, not only as to the security of the credit, but also, and equally important, that the proposed credit is adequate for the purpose and that the proposal offers assurance of repayment from prospective earnings within a reasonable period of time. The actual form which the credit takes, the type of security taken, the method of disbursement and the schedule of repayments are all arranged to fit the circumstances of the borrower as closely as possible.

Applications for loans may be made by mail or by a visit to any office of the Bank. Application forms are available at any office of the Bank, at agencies of the Bank of Canada, at most chartered bank branches, or from the Canadian Manufacturers' Association. The addresses of the various offices of the Industrial Development Bank are:

ATLANTIC PROVINCES

65 Spring Garden Road,
Halifax, Nova Scotia.

MANITOBA AND SASKATCHEWAN

195 Portage Avenue,
Winnipeg, Manitoba.

QUEBEC

901 Victoria Square,
Montreal, Quebec.

ALBERTA, YUKON AND

NORTHWEST TERRITORIES

513 8th Avenue West,
Calgary, Alberta.

ONTARIO

85 Richmond St. West,
Toronto 1, Ontario.

BRITISH COLUMBIA

475 Howe Street,
Vancouver, British Columbia.

Provincial

An alternative source of borrowed funds for enterprises not in a position to borrow through normal channels is provided by certain of the provincial governments. The activities of these public business financing agencies are of two general types: (1) direct lending in which the public agency extends credit to the business concern, and (2) loan guaranteeing and financing undertaken co-operatively with other sources of financial assistance. These public agencies supplement rather than compete with the activities of chartered banks and other lending organizations. They often work in close co-operation with lending institutions in helping sound industrial projects.

The *Province of Alberta* has two types of assistance available through Provincial Government sources. Treasury Branches, were established under the Treasury Department Act and began operations in 1938. Their function is almost identical with that of any chartered bank and its branches.

A form of inventory assistance is provided by Alberta's Provincial Marketing Board, which was set up under the Alberta Marketing Act. The Marketing Board is empowered to make large-scale purchases of various materials, which are in turn sold to manufacturers as required. This practice has two advantages — (i) it makes available the benefits of large scale purchasing; (ii) by making use of this service a manufacturer avoids tying up too much of his working capital in raw materials. The Marketing Board, requires a certain percentage of the total value, usually ten to fifteen per cent, to be deposited with the Board, and maintains control of the inventory at all times, until the contract of purchase has been completed, and, for this service, charges a brokerage fee of two per cent.

The *Province of Saskatchewan*, through the establishment and operation of the Industrial Development Fund, offers financial assistance to new manufacturing ventures establishing in the Province, and, in addition, offers financial assistance to existing firms that wish to carry out expansion programmes. This assistance takes the form of loans or guarantees of loans secured from other sources. The Fund grants loans to any manufacturing concern either a co-operative association or other body of a co-operative nature, individual, private firm, corporation or municipality, carrying on or proposing to carry on manufacturing operations in the Province. The Committee operating the Fund considers each application for assistance on its own merits and this usually includes an analysis of the proposed expansion or new manufacturing operation in terms of economic feasibility and the effect of this new development on the Saskatchewan economy.

Loans are generally made for periods of five years at five and one-half per cent interest for amounts up to approximately fifty per cent of fixed assets. The existence and effectiveness of the Industrial Development Fund has been a significant factor in the accelerated programme of industrial development that has taken place in Saskatchewan over the last few years.

The *Province of Quebec* provides financial assistance to industrial enterprises only when it is reasonably apparent that the funds can not be obtained without serious detriment from private sources, commercial banks or other financial institutions. Applications for financial assistance are considered only from those existing or potential industries that are deemed capable of developing the provincial economy.

In the *Province of New Brunswick*, under the "Industrial Development and Expansion Act", loans may be granted to selected industries when the economy of an area might thereby be improved or a new process might be introduced. These loans are carefully selected by the "Industrial Development Board" in order not to affect existing capital investment or in any way interfere with free enterprise. Such financial assistance is granted to industry only

upon the recommendation of the Board to the Government, and then only if the Government feels that such assistance will promote the development of natural resources in the Province.

The *Province of Nova Scotia* has an Industrial Loan Act, under the provisions of which loans can be made directly to industry, or be guaranteed by the Government. For the purpose of the Act, the word "industry" refers to any type of activity in which raw or other materials are processed into substantially altered products, or a type of activity basic to the development of such industries. The definition does not include the following types of activity: logging, saw-milling, agriculture, pasteurizing or butter making, mining, quarrying, transportation, communication, publishing, broadcasting, the generation and distribution of electric energy, retail or wholesale trade, or the provision of personal services, other than by hotels. Such loans or guarantees of loans may be used for the purpose of acquiring land, buildings, machinery or equipment to be used in establishing or developing industries within the Province.

However, the capital invested or to be invested in the enterprise by the borrower must at least approximate the amount of the proposed loan. These loans are repayable in regular instalments over a period not substantially in excess of ten years and are subject to a low rate of interest. The Act is administered by the Department of Trade and Industry with the advice of an Industrial Loan Board made up of business men of the Province.

The *Province of Newfoundland* has been actively assisting new industries to establish, and existing industries to expand, in an effort to develop the natural resources of the Province. Where it is in the interest of the people of Newfoundland, the Province has extended financial aid to new industrial projects, with particular emphasis on those which process the products of her forests, mines and fisheries.

Assistance to industries in Newfoundland may be provided by Government loan, by guaranteeing bank loans, or by guaranteeing the bond issues of applicant companies. The term of a loan is usually ten to fifteen years, with the interest rate of four and one-half to five per cent. The government-guaranteed loan usually approximates the investment made by the owner of the company, and is secured by a first mortgage on the assets of the company.

In addition, the Newfoundland Government has four special lending agencies, the Co-operative Development Loan Board, the Fisheries Development Loan Board, the Industrial Development Loan Board and the Tourist Development Loan Board. Loans made by these Boards have usually been advanced to firms engaged in small industrial enterprises, fresh fish and mining industries, to co-operative groups in establishing enterprises such as freezing plants, and to operators of tourist establishments.

Foreign Exchange

THERE are no restrictions on the movement of funds into or out of Canada. Banks, corporations and individuals in Canada are free to deal in or hold foreign funds or to accept or make payment in any currency they choose. A foreign investor is free to liquidate his Canadian investment at any time and transfer the proceeds from Canada in whatever currency he may desire. During the life of his investment, profits or dividends may be remitted at will.

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Canadian Bankers' Association

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